

[No. 19]

FULL COMMITTEE CONSIDERATION OF H.R. 7811, H.R. 7812, AND
H.R. 7813

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,

Washington, D.C., Wednesday, July 7, 1965.

The committee met at 10:17 a.m., in room 2118, Rayburn Building, Hon. L. Mendel Rivers, chairman, presiding.

The CHAIRMAN. Members of the committee, the first thing we are going to take up this morning is three ship loan bills, H.R. 7811, which would authorize the sale or loan of 12 vessels to South American countries; H.R. 7812, which would authorize the loan only of three vessels to Italy and Spain; and H.R. 7813, which would authorize the loan only of six vessels to Turkey and the Far East.

(The bills referred to are as follows:)

[H.R. 7811, 89th Cong., 1st sess.]

A BILL To authorize the sale or loan of naval vessels to friendly Latin American countries, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may sell or lend, at his discretion, to friendly foreign nations of Latin America from the reserve fleet, on such terms and conditions as he deems appropriate, destroyers and submarines as follows:

(1) Argentina, three destroyers, (2) Brazil, four destroyers, (3) Chile, two destroyers, (4) Peru, two destroyers, (5) Venezuela, one submarine.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 3. Notwithstanding sections 7304 and 7305 of title 10, United States Code, should the President determine that the vessel or vessels shall be sold to the recipient government, said vessel or vessels shall be stricken from the Naval Vessel Register. The vessel or vessels shall be sold at not less than \$1,000,000 each over and above any cost of activation, overhaul, or modification. All sales will be made pursuant to the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 4. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 5. No sale or loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such sale or loan is in the best interests of the United States. The Secretary of Defense shall keep the Congress currently advised of all sales or loans made under authority of this Act.

SEC. 6. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 7. The authority of the President to sell or lend naval vessels under this Act terminates on December 31, 1967.

(3041)

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[H.R. 7812, 89th Cong., 1st sess.]

A BILL To authorize the loan of naval vessels to friendly foreign countries, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) Italy, two submarines, and (2) Spain, one helicopter carrier.

Sec. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

Sec. 3. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

Sec. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all loans made under authority of this Act.

Sec. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

Sec. 6. The authority of the President to lend naval vessels under this Act terminates on December 31, 1967.

[H.R. 7813, 89th Cong., 1st sess.]

A BILL To authorize the loan of naval vessels to friendly foreign countries

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) China, one destroyer and two destroyer escorts, (2) Turkey, two destroyers, and (3) the Philippines, one destroyer escort.

Sec. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act, shall be charged to funds programmed for the recipient government as grant military assistance, or as reimbursable, under the provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

Sec. 3. Loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. All loans shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

Sec. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all extensions or loans made under authority of this Act.

Sec. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

Sec. 6. The authority of the President to lend naval vessels under this Act terminates on December 31, 1967.

The CHAIRMAN. Last year, we held hearings on and reported H.R. 11035 which authorized the extension of the loan of vessels to a number of foreign nations, but the last law authorizing new vessel loans was back in 1961.

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In view of the long period of time since our consideration of a ship loan bill and also because of the large number of new members on the committee who have never participated in the consideration of a bill of this kind, I feel it might be well to describe briefly the history of this legislation and some other pertinent matters relating to ship loans generally in order to place these three bills in a proper context.

Mr. BLANDFORD. (Aside to the chairman.)

The CHAIRMAN. I think I better read this first.

Mr. Blandford suggested that a quorum is not here, but I think I better continue reading this and then we will go into the bills in executive session, but I want the committee to hear this.

Now, many of us remember back in 1951, we discovered that six cruisers had been transferred to South American countries without the approval of the Congress. So we passed out of the Armed Services Committee a bill which became Public Law 3 of the 82d Congress. This law provided that—

No battleship, carrier, cruiser, destroyer, or submarine of the United States which has not been stricken from the Naval Register * * * or any interest of the United States in any such vessel, shall hereafter be sold, transferred, or otherwise disposed of unless authorized hereafter by the Congress.

I thought with the combatant ships it was a violation of law all the time, Mr. Blandford.

Is this the genesis of the combatant ship legislation?

Mr. BLANDFORD. Well—

The CHAIRMAN. But anyway we did this.

Now, since that time, 17 laws relating to ship transfers have been enacted by the Congress. Eleven of these provided authority for new loans and extensions of existing loans and the other six dealt with loan extensions only.

These laws have authorized the loan of 94 ships, the transfer of 9 ships, and the sale of 4 ships. Of the 94 ships authorized for loan, 72 have actually been loaned; of the 4 ships authorized for sale, 1 has been sold; all of the 9 ships transfers have been effected.

To date, ship loan laws have involved an expenditure of \$158,981,000 in the activation, rehabilitation, and outfitting of vessels.

On the other side of the ledger, the United States has received \$41,406,345 from the sale of a submarine to Venezuela and from the activation, rehabilitation, and outfitting of vessels which have been paid for by the recipient countries.

As to the method of financing these bills, I will say at this time that I wish the witnesses to include—Mr. Secretary, I want you all to hear this—as a part of their testimony an explanation of the language which appears in section 2 of the first two bills and, with a variation in language, in the third bill. This language in the first two bills reads as follows:

All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

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As to costs, the cost of activation, overhaul, and rehabilitation of a destroyer varies between \$3.3 and \$5.7 million. The higher figure would be applicable to a ship which was also modernized in the process appropriate to its class.

Similar costs for a destroyer escort is about \$2.7 million; for a submarine, \$3.7 million unless there is a snorkel conversion and fair-water streamlining of the submarine in which event the cost is \$5 million. All of these costs are typical and vary somewhat from ship to ship. Some of the ships in these bills, however, will have only austere rehabilitation performed in the United States and in these cases, the cost per ship will be much less. An example of this is the two submarines for Italy where the additional necessary work will be performed in Italy.

Of the types of ships contemplated for loan, or in the case of South American countries, loan or sale, we now have in the reserve fleet the following from which to draw: 134 destroyers, 191 destroyer escorts, 9 submarines, and 3 CVL's.

What is the CVL, what class is that? Is that 27,000?

Admiral McDONALD. That is conversion from a cruiser, sir. You remember we had some light cruisers.

The CHAIRMAN. That is—

Admiral McDONALD. A light carrier.

The CHAIRMAN. That is scarcely 10,000 tons, isn't it?

Admiral McDONALD. Just about; 11,000, as a matter of fact.

The CHAIRMAN. About 11,000.

According to the departmental report on these bills, the cost of H.R. 7811—South American countries—is \$38 to \$80 million depending upon the extent of overhaul and modification desired, and whether title to the ships is purchased by the recipient countries. The cost of H.R. 7812—Spain and Italy—is \$20.5 million including helicopters for the Spanish carrier.

The language in the bill relating to the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, purports to say that with respect to these two bills the recipient countries will pay the costs.

With respect to H.R. 7813 (China, Turkey, and the Philippines), you will note that the language in this bill is somewhat different in that section 2 states that the costs will be charged to funds "programmed for the recipient government as grant aid assistance, or as reimbursable," under the Foreign Assistance Act. In this case, the minimum cost of the bill is \$17 million, all or some of which will be paid by the United States.

Now, Mr. Blandford, I think we ought—what is so important?

Mr. BLANDFORD. You have a quorum present now, Mr. Chairman.

The CHAIRMAN. We don't need to have that in executive session.

Mr. BLANDFORD. Well, the point is that part of the Secretary's testimony is classified.

The CHAIRMAN. Is it necessary to have all this classified?

Secretary NITZE. I beg your pardon, Mr. Chairman?

The CHAIRMAN. Well, we will go into it if it needs to be classified.

Now, I want to say I have a letter from the Secretary of the Treasury telling us of the assistance and the balance of payments

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for an expeditious handling of these bills, notably I think to Italy and Spain. I think it refers to Italy and Spain.

Mr. BLANDFORD. Yes, sir.

The CHAIRMAN. I won't bother reading that, but that is what it says. I will leave it to Mr. Philbin and Mr. Bates.

Now, I had a letter from NATO, my friend General Smart, who is the deputy for General Lemnitzer, asking us to assist in the Turkey and the other NATO allies transfers because of the assistance in the command to take care of our allies. I want Secretary Fowler's letter in the record.

(Committee insert:)

THE SECRETARY OF THE TREASURY,
Washington, D.C., June 28, 1965.

Hon. L. MENDEL RIVERS,
Chairman, Armed Services Committee,
House of Representatives,
Washington, D.C.

DEAR MR. CHAIRMAN: Your committee has before it a series of bills on the subject of ship loans. I should like to take this opportunity to give special endorsement to one of the bills which you are considering, namely, H.R. 7812.

For the last 5 years, Treasury has worked very closely with the Department of Defense in helping to arrange sales of U.S. military equipment—especially, and as first priority, to those of the developed nations where the presence of American forces and facilities have an adverse effect on our balance of payments.

Spain and Italy are both examples of such nations; U.S. military expenditures in those two countries together are likely to total \$650 million during the fiscal years 1964-68. Thanks to military sales, our prospects are that these potential balance of payments losses will be offset by \$600 million over the same period—a most valuable, in fact indispensable improvement.

This level of sales, however, is in part contingent upon the passage of H.R. 7812.

My concern specifically with our balance of payments prompts me to add my voice at this time and to express the Treasury Department's hope for early hearings and passage of H.R. 7812. The high priority I place on H.R. 7812 is not intended to imply any opposition on my part to H.R. 7813 and H.R. 7811.

Sincerely yours,

HENRY H. FOWLER.

The CHAIRMAN. Now, Mr. Secretary, we have you and the Chief of Naval Operations.

If you will come forward, we will start on these bills, with which Mr. Kelleher is familiar.

Mr. KELLEHER. 7811 is first, but the statement deals with all three. It is a single statement.

The CHAIRMAN. Now, I want the record to show that a quorum is present.

Mr. BLANDFORD. Yes.

The CHAIRMAN. And your statement will apply to the entire package. And wherever you find we have to go in executive session, we will save that until the last, Mr. Secretary.

Mr. BLANDFORD. (Aside to the chairman.)

The CHAIRMAN. We are going to have the unclassified statement first.

Secretary NITZE. Thank you, Mr. Chairman.

The CHAIRMAN. Now, you go ahead and read your unclassified statement.

Secretary Nitze. Mr. Chairman and members of the committee: I am pleased to appear before you today in support of several proposed bills which would authorize the loan or sale of combatant ships to friendly foreign countries.

I am accompanied by Gen. Robert J. Wood, representing the Secretary of Defense, and the Chief of Naval Operations.

The U.S. worldwide—

The CHAIRMAN. Let me say, General Wood, I didn't mean to overlook you.

General Wood. Thank you, sir.

The CHAIRMAN. You are just as important as anybody here. Thank you, Mr. Secretary, for calling that to my attention so politely.

Go right ahead.

Secretary Nitze. The U.S. worldwide defense commitments have required large allocations of our resources of manpower, equipment and money. It is our goal to obtain a larger and more equitable allied participation in and contribution to free world defense, with a corresponding decrease in inequitably high American costs. The proposed ship transfers support that goal.

With but limited cost to the United States in men, money, and materials, certain ships now contributing only potential readiness in our Reserve Fleet, can be converted to actual operational naval strength in the hands of our allies. These Reserve Fleet ships have a U.S. mobilization role; however, from a strictly military evaluation, they are a better asset, when overhauled and modernized to an appropriate degree, strategically dispersed throughout the world, and operational in the hands of our allies.

For each proposed loan or sale, the military requirement for ships has been thoroughly validated by the country team. It has been determined that the recipient country has both the manpower and technical ability to operate the ships efficiently and effectively. A concurrent request through diplomatic channels for the loan or sale has assured us that there is also political support for the proposed transfer. After approval by the country team, the unified commander has reviewed the proposed ship loan or sale to insure that it is in accordance with theater plans. Subsequently, the other military departments, the Department of Defense and State, and the Bureau of the Budget, by their approval, have assured us that the proposal fully supports U.S. policy and objectives. We now seek the approval of the Congress.

The proposed legislation has been submitted in three separate bills. These are: (1) A bill for the loan or sale of ships to Latin American countries; (2) a bill for the loan of an LPH to Spain and two submarines to Italy; and (3) a bill for the loan of destroyers and destroyer escorts to Turkey, China, and the Philippines.

BILL FOR LOAN OR SALE OF SHIPS TO LATIN AMERICAN COUNTRIES, H.R. 7811

This bill, containing the proposed loan or sale of 11 destroyers and one submarine to South American countries, at no cost to the United States, provides the most economical and effective means by which the United States can assist these navies to improve their

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The vessels authorized by this bill would enable Latin American navies to continue replacement of obsolete ships and standardize on general purpose units suitable and effective for peacetime surveillance of coastal waters, support of counter-insurgency operations in coastal areas and wartime patrol of convoy routes along their coasts. Since U.S. naval forces are insufficient to allow the U.S. Navy to assume the ASW role in these areas, the vessels provided under this bill will allow the Latin American navies to fill this important role. The annual United States-South American ASW training exercises (UNITAS series) have demonstrated the value of standardizing equipment and training to improve the collective strength of United States-South American naval forces.

Concomitant with the ship loans under the 1958 bill, South American countries scrapped, laid up or inactivated tonnage far beyond that received in loan. Information received informally from the country teams indicates that additional obsolete ships would be scrapped should the Congress approve the proposed legislation. The alternative appears to be a growing obsolescence of their ships, a degrading of the Latin American naval role and perhaps their turning to other countries for support.

In this bill, the South American countries would have the option to purchase the ships. Under that option, the ships involved would be stricken from the Navy list, and sold for not less than \$1 million each over and above the costs of activation, overhaul or modification. Upon full payment by the recipient, such sales would be final and no recall of the ships would apply.

BILL FOR LOAN OF LPD TO SPAIN AND TWO SUBMARINES TO ITALY, H.R.
7812

This bill proposes the loan of a helicopter carrier to Spain at no cost to the United States. This loan supports the 1963 base rights agreement, which, in turn, supports U.S. strategic posture. With this carrier and its embarked helicopters, the Spanish will add a significant ASW capability to free world forces in an area of high strategic significance.

The bill also proposes the loan to Italy of two submarines which are to replace obsolete Italian submarines that are now beyond economical repair. This loan would provide NATO-committed Italian ASW forces with submarine target services that are a requisite to maintaining readiness and proficiency. Competent Italian ASW forces enhance our posture in the Mediterranean.

BILL FOR LOAN OF DESTROYERS AND DESTROYER ESCORTS TO TURKEY,
CHINA, AND THE PHILIPPINES, H.R. 7813

The bill would authorize loan of three destroyers and three destroyer escorts to countries on the periphery of the Communist world, Turkey, China, and the Philippines. Costs would be borne by grant aid or credit assistance. These ships would appreciably strengthen the navies of those countries whose policies ally them so closely to U.S. objectives.

A portion of the funds necessary to implement this bill is being requested in the current Foreign Aid Appropriations bill before this

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session of Congress. The remaining funds required will be requested in subsequent foreign aid requests if Congress approves these proposed loans.

OTHER PROVISIONS

All ship loan agreements have contained a recall provision which would allow the United States to repossess any ship so loaned. So far, since World War II, we have never had occasion to recall any ships, but we have received excellent cooperation from the recipient navies when their services were required, thus making such recall unnecessary. Nevertheless, the loans authorized by these bills would contain similar recall provisions.

In each of these three bills it is proposed that the authority to sell or lend vessels terminate on 31 December 1967. This period of time is needed to provide for negotiations and the orderly planning of activations and overhauls. All previous new loan authority has expired.

In addition, the new 5-year loan proposals contain a provision for authority to renew the loan period for an additional 5 years at the discretion of the President without further reference to the Congress. Congress would be kept informed of all loans and sales granted under this authority.

The gold-flow implications of these three bills are significant. For example, the helicopter carrier for Spain would result in a \$20 million inflow of gold or its equivalent. The ships for South America would result in a minimum of \$38 million or maximum of \$80 million favorable flow of gold depending on the extent of overhaul and modification, and whether recipient countries desire to purchase the ships. Even the expenses associated with ship loans for which we receive no reimbursement would be paid by the Government of the United States for work done in our own shipyards; hence no gold outflow.

The worldwide commitments of the United States require assistance from our allies. The U.S. Navy alone cannot fulfill all free world naval requirements. The forces of our allies, large and small, must help accomplish these naval tasks. It is to enable them more adequately to help us while helping themselves that these ship loans or sales are intended. The proposed legislation supports U.S. policy, strengthens free world forces, enhances U.S. forward security and improves U.S. balance of payments. Last, and most important, it converts the potential of a portion of the Reserve Fleet to actual operating naval strength, strategically dispersed and operational in the hands of our allies, at minimum cost to U.S. resources.

This concludes my unclassified statement, Mr. Chairman.

If agreeable to the committee I would like the opportunity to make further remarks at a later time in executive session.

The CHAIRMAN. Why don't we just go into executive session now? I will ask that all those who are not cleared for classified information to leave the room, because we are going into secret testimony.

Now, Mr. Slatinsek, you handle that, please.

(Whereupon, at 10:40 o'clock a.m., the committee proceeded in executive session.)

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89TH CONGRESS } HOUSE OF REPRESENTATIVES } REPORT
1st Session } No. 624

AUTHORIZING THE LOAN OF NAVAL VESSELS TO TURKEY,
CHINA, AND THE PHILIPPINES

JULY 19, 1965.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. RIVERS, from the Committee on Armed Services, submitted the
following

R E P O R T

[To accompany H.R. 7813]

The Committee on Armed Services, to whom was referred the bill
(H.R. 7813) to authorize the loan of naval vessels to Turkey, China,
and the Philippines, having considered the same, report favorably
thereon without amendment and recommend that the bill do pass.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the loan of six vessels of
the destroyer and destroyer escort categories of the reserve fleet to
Turkey, China, and the Philippines.

SUMMARY

The President desires authority to loan six ships to the following
countries:

China.....	1 destroyer and 2 destroyer escorts.
Turkey.....	2 destroyers.
Philippines.....	1 destroyer escort.

The destroyers that are to be loaned are of the *Fletcher* class (2,100
tons). The destroyer escorts are of the *Bostwick* class (1,590 tons).

COST

The cost of this bill will be between \$17 and \$26 million, depending
upon the extent of overhaul and modification performed.

BACKGROUND OF SHIP LOAN PROGRAM

The law

Prior to 1951, U.S. naval vessels were transferred to friendly foreign nations under the provisions of the Mutual Assistance Defense Act of 1949, as amended. In 1951, the Congress passed Public Law 82-3 (10 U.S.C. 7307). This law, as codified, is as follows:

RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

Since that time, 17 laws relating to ship transfers have been enacted by the Congress. Eleven of these provided authority for new loans and extensions of existing loans and the other six dealt with loan extensions only.

Transfers to date

These laws have authorized the loan of 94 ships, the transfer of 9 ships, and the sale of 4 ships. Of the 94 ships authorized for loan 72 have actually been loaned; of the 4 ships authorized for sale, 1 has been sold; all of the 9 ships' transfers have been effected.

Expenditures and receipts to date

To date, ship loan laws have involved an expenditure of \$158,981,000 in the activation, rehabilitation, and outfitting of vessels.

On the other side of the ledger, the United States has received \$41,406,345 from the sale of a submarine to Venezuela and from the activation, rehabilitation, and outfitting of vessels which have been paid for by the recipient countries.

TYPICAL COSTS

The cost of activation, overhaul, and rehabilitation of a destroyer varies between \$3.3 and \$5.7 million. The higher figure would be applicable to a ship which was also modernized.

Similar costs for a destroyer escort are from \$2 to \$2.7 million. These costs are typical and vary somewhat from ship to ship. Some of the ships in this bill, however, may have only austere rehabilitation and in these cases the cost per ship will be much less.

Ships on loan to China and Turkey as of June 1, 1965

Country	Number and type	Ships	Authority	Delivery date	Expiration date
Republic of China	4-DD	Benson, DD-421.....	Public Law 83-188, TIAS 2916 as amended by Public Law 86-57, TIAS 4340 extended Public Law 88-437.	Feb. 26, 1964	1 Feb. 26, 1969
		H. P. Jones, DD-427.....	do.....	do.....	Do. ¹
		Rodman, DD-468.....	Public Law 83-188, TIAS 3218, 4597 as amended by Public Law 86-482 extended Public Law 88-437.	July 23, 1965	1 July 23, 1970
	5-SS	Plunket, DD-431.....	Public Law 85-532, TIAS 4180 extended Public Law 88-437.	Feb. 16, 1969	1 Feb. 16, 1969
		Guitarro, SS-303.....	Public Law 83-214, TIAS 3042 as amended by Public Law 86-57, TIAS 4300 extended Public Law 88-437.	Aug. 7, 1964	1 Aug. 7, 1969
		Hammerhead, SS-364.....	do.....	Oct. 23, 1964	1 Oct. 23, 1969
Turkey	Bergail, SS-320.....	Bergail, SS-320.....	Public Law 85-532, TIAS 4117 extended Public Law 88-437.	Oct. 18, 1968	1 Oct. 18, 1968
		Mapiro, SS-376.....	do.....	Mar. 18, 1960	1 Mar. 18, 1970
		Mero, SS-378.....	do.....	Apr. 20, 1960	1 Apr. 20, 1970
Philippines ²					

¹ Legislation authorized 5-year extension.

² No ships on loan.

Detailed costs of proposed legislation

[In millions]

Country	Number	Type	Activation or modification	Spares	Material total	Training	Overall total
Turkey	2	DD	\$10.66	\$0.72	\$11.38	\$0.14	\$11.52
China	1	DD	6.33	.36	6.69	.25	6.94
Do.	2	DE	6.034	.426	6.46	.34	6.80
Philippines	1	DE	2.617	.218	2.73	.17	2.90
Total							28.16

VARIATION IN SHIP LOAN REACTIVATION COSTS

The reactivation, overhaul, and modernization costs for the ships proposed for loan in H.R. 7813 are estimated to vary from a minimum of \$17 million to a maximum of \$26 million. The reasons for the variance in cost estimates are many; the most pertinent being:

Condition of hull

The condition of the hull and machinery varies between ships due to age, time in active service, deterioration in mothballs, etc. Only after each ship selected for loan or sale has been inspected by technical personnel can accurate estimates be given for activation and overhaul costs of the hull and machinery.

Obsolete equipment replacement

The length of time since the ship was active and the type of equipment installed, such as radars, radios, fire control equipment, etc., will influence the amount of equipment that must be replaced. Certain obsolete equipment must be replaced to insure that spare parts are available and thus the ship is logistically supportable after activation.

4 NAVAL VESSELS TO TURKEY, CHINA, AND THE PHILIPPINES

Modernization

If the recipient country desires more modern antiaircraft guns such as 3-inch 50's, or more powerful sonar, etc., the total cost will vary greatly. Additionally, recipient countries may desire various alterations to improve the effectiveness of a vessel.

Extent of overhaul

There may also be differences in the amount of overhaul work accomplished in U.S. shipyards. The capability of recipient countries to perform limited overhaul work in their own shipyards would lessen the amount done in the United States thus decreasing the estimated costs.

Spare parts

The depth and range of spare parts purchased to support the ship in the future will also cause the costs to vary.

Consumable stores

The amount of consumable stores will also change the total cost to the recipient governments.

RESERVE FLEET

Of the types of ships contemplated for loan or sale in this bill, we now have in the reserve fleet 134 destroyers and 191 destroyer escorts.

U.S. WORLDWIDE COMMITMENTS

The U.S. worldwide defense commitments have required large allocations of our resources of manpower, equipment, and money. It is our goal to obtain a larger and more equitable allied participation in and contribution to free world defense, with a corresponding decrease in inequitably high American costs. The proposed ship transfers support that goal.

Ships now contributing only potential readiness in our reserve fleet can be converted to actual operational naval strength in the hands of our allies. These reserve fleet ships have a U.S. mobilization role; however, from a strictly military evaluation they are a better asset when overhauled and modernized to an appropriate degree, strategically dispersed throughout the world, and operational in the hands of our allies.

Validation of need

For each proposed loan or sale, the military requirement for ships has been thoroughly validated by the country team, the unified commander, and the Joint Chiefs of Staff.

Ability to operate ships

It has been determined that the recipient country has both the manpower and technical ability to operate the ships efficiently and effectively. The committee is advised that a concurrent request through diplomatic channels for the loan or sale has assured that there is also political support for the proposed transfer. After approval by the country team, the unified commander has reviewed the proposed ship loan or sale to insure that it is in accordance with theater plans. Subsequently, the other military departments, the

Departments of Defense and State, and the Bureau of the Budget by their approval, have given assurance that the proposal fully supports U.S. policy and objectives.

MUTUAL ADVANTAGES

Internal and external security.—The committee was informed that the ships proposed for loan under this bill will be used by the recipient countries to discharge naval responsibilities assumed by them in their areas. These ships will assist the recipient countries in maintaining their own internal security, in protecting their coasts and coastal lines of communication, and in protecting sea lines of communication.

Antisubmarine capability.—The Department of Defense regards as important the achievement of a strong antisubmarine capability in the areas where these ships would be loaned. Any contribution by the recipient countries to offsetting a prospective submarine threat would enhance the total defense capability of the free world. To the extent that recipient countries develop an antisubmarine capability, U.S. naval forces will be freed from certain antisubmarine tasks.

Readiness and maintenance.—Although the U.S. Navy reserve fleet is a source of potential naval strength, this potentiality would become actual naval strength if all the ships could be adequately manned, operated, and maintained in an active status. The cost of such operation by the United States is prohibitive in peacetime. Operation and maintenance of the vessels by allies can assist in keeping the equipment ready for use and in good condition.

Deployment.—Obviously, it is important to have naval forces properly positioned to counter an enemy threat. If the allies to whom the ships are to be loaned have the vessels functioning at the outbreak of any hostilities, time will be saved in the positioning of ships in the geographical areas where they are to be used.

Dispersion of our reserve fleet.—The U.S. Navy reserve fleet has been dispersed as widely as available berthing space and reasonable access to repair and overhaul facilities for periodic rehabilitation would permit. The loan of the ships that are the subject of this bill would tend to reduce undesirable concentration of reserve vessels.

Extension of U.S. influence.—The recipients of other loans of U.S. ships have adopted U.S. Navy doctrines and standards of operation and maintenance. This result has come about under the personnel training program carried out before and after transfer of the ships. During such training, naval personnel of foreign nations have the opportunity to observe U.S. Navy organizations in action and to observe America and Americans during their periods of leave and liberty. The officers and men who receive this training will provide the leadership for their navies in the years to come.

RECIPIENT NATIONS

Requests received.—Since World War II, the United States has received many requests for ships from foreign countries. These requests have been evaluated in terms of the needs of the requesting countries, mobilization requirements of the United States, worldwide demands on our resources, and the availability of mutual defense assistance funds.

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Ships proposed for loan under this bill will satisfy some of the more urgent requests that have been considered. The ships that are proposed for transfer under the bill are part of our mobilization base but they will be in possession of allies and not lost to the United States.

Ability of countries to use.—The ability of the countries concerned to operate these vessels properly has been checked by the country teams composed of the U.S. Ambassador, the chief of the military assistance advisory group, and the U.S. operations mission in each country involved.

AGREEMENTS WITH FOREIGN COUNTRIES

Formal agreement

It is proposed that, upon enactment of the bill into law, a formal agreement will be concluded by the State Department with the recipient foreign government. It will be for a term of 5 years and if requested by the recipient government, the loan may be extended for an additional 5 years at the discretion of the President. The agreement will stipulate that the ships be used in accordance with the conditions of the mutual defense assistance agreement. The recipient government will have use of all equipment and spare parts on board the ships at the time of the delivery, but title remains in the United States even though the ships may be placed under the recipient government's flag. Possession of the ships will not be relinquished without consent of the United States, and no claims arising as a result of transfer and operation of the ships may be assessed against the United States.

Right to repossess

The United States may repossess these ships at any time if necessitated by its own emergency defense requirements. At the expiration of the loan, the ships will be returned in the same condition as when loaned, except for fair wear and tear, but if a ship is damaged or lost through enemy action, the recipient country is exempt from liability for such damage or loss.

FRIENDLY FOREIGN NATIONS

Ultimate responsibility for determination of a "friendly foreign nation" is vested in the President by the Foreign Assistance Act of 1961, section 503, which states inter alia:

The President is authorized to furnish military assistance on such terms and conditions as he may determine, to any friendly country or international organization, the assisting of which the President finds will strengthen the security of the United States and promote world peace and which is otherwise eligible to receive such assistance, * * *

Similar authority is contained in section 507 regarding military sales. In this case, the "sale" is for goods and services; i.e., equipment and repairs used in activating and overhauling the ship.

The definition is detailed further within the act of 1961 in section 506 where certain conditions of eligibility are prescribed. These conditions are applied continuously to all countries eligible for both grant aid and sales by the Departments of State and Defense to insure that recipients are "friendly" and that such military assistance is in keeping with military and political objectives of the United States.

THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED,
PART II, CHAPTER 2

MILITARY ASSISTANCE

SECTION 506. CONDITION OF ELIGIBILITY.—(a) In addition to such other provisions as the President may require, no defense articles shall be furnished to any country on a grant basis unless it shall have agreed that—

- (1) it will not, without the consent of the President—
 - (A) permit any use of such articles by anyone not an officer, employee, or agent of that country,
 - (B) transfer, or permit any officer, employee, or agent of that country to transfer such articles by gift, sale, or otherwise, or
 - (C) use or permit the use of such articles for purposes other than those for which furnished;
- (2) it will maintain the security of such articles, and will provide substantially the same degree of security protection afforded to such articles by the United States Government;
- (3) it will, as the President may require, permit continuous observation and review by, and furnish necessary information to, representatives of the United States Government with regard to the use of such articles; and
- (4) unless the President consents to other disposition, it will return to the United States Government for such use or disposition as the President considers in the best interests of the United States, such articles which are no longer needed for the purposes for which furnished.

* * * * *
FISCAL DATA

Although it is not possible to determine at this time the costs involved in this bill, it can be said that should the United States be required to pay all of the costs, the bill will involve between \$17 and \$26 million.

DEPARTMENTAL DATA

This bill is a part of the Department of Defense legislative program for the 89th Congress. The Bureau of the Budget has no objection to this legislation. Below is set out a letter dated April 27, 1965, from Secretary of the Navy Paul H. Nitze which is made a part of this report:

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., April 27, 1965.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

MY DEAR MR. SPEAKER: There is forwarded herewith a draft of proposed legislation to authorize the loan of naval vessels to friendly foreign countries.

8 NAVAL VESSELS TO TURKEY, CHINA, AND THE PHILIPPINES
Approved For Release 2003/10/15 : CIA-RDP67B00446R000500260001-8

This proposal is a part of the Department of Defense legislative program for the 89th Congress, and it is related to the mutual defense and development program. The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress. The Department of the Navy has been designated as the representative of the Department of Defense for this legislation. It is recommended that this proposal be enacted by the Congress.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the loan of six vessels of the destroyer and destroyer escort categories of the reserve fleet to certain friendly foreign countries.

The following factors were considered before the new loans were proposed: First, it was determined that the transfer of ships for the specific intended uses of this legislation would not adversely affect the U.S. Navy's military capability and is in keeping with the U.S. national policy for the countries under consideration. The loans were then examined in relation to the naval tasks which the nations will be performing under their bilateral and multilateral agreements. Finally, an appraisal was made of the countries' demonstrated will to provide for their own defense and available manpower in conjunction with their capability to operate the ships, and the countries' economies. These factors have been weighed in the field by the U.S. Ambassador and the chief of military assistance advisory group in each country, by the commander in chief, Pacific, and commander in chief, U.S. European Command, for the countries in their respective areas, and by the Departments of Defense and State. At each of the levels it was determined that it is to our advantage to initiate the loans to these countries.

The United States would derive significant advantages from these loans, foremost of which will be the increased capability of free world navies to combat the threat posed by the Sino-Soviet submarine forces. This increased capability will result from effectively trained and combat-ready free world antisubmarine forces on station in potential areas of operation.

In view of the advantages, the political desirability of these loans, and the military requirement for these forces, it is considered that the legislation proposed herein should be enacted.

COST AND BUDGET DATA

It is estimated that the cost of activation and mobilization of the six vessels which are covered by the draft bill will total approximately \$17 million. These costs will be charged to funds programmed for the recipient government as grant military assistance under provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation, or will be charged to funds provided by the recipient government under the reimbursable provisions thereof.

Sincerely yours,

PAUL H. NITZE,
Secretary of the Navy.

A BILL To authorize the loan of naval vessels to friendly foreign countries

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) China, one destroyer and two destroyer escorts, (2) Turkey, two destroyers, and (3) the Philippines, one destroyer escort.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act, shall be charged to funds programed for the recipient government as grant military assistance, or as reimbursable, under the provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 3. Loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. All loans shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all extensions or loans made under authority of this Act.

SEC. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 6. The authority of the President to lend naval vessels under this Act terminates on December 31, 1967.

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CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill as reported:

EXISTING LAW

(10 U.S.C. ch. 633, Naval Vessels)

* * * * *

SEC. 7307. RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

* * * * *

THE BILL AS REPORTED

That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) China, one destroyer and two destroyer escorts, (2) Turkey, two destroyers, and (3) the Philippines, one destroyer escort.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act, shall be charged to funds programmed for the recipient government as grant military assistance, or as reimbursable, under the provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

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SEC. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all extensions or loans made under authority of this Act.

SEC. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

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89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } No. 623

AUTHORIZING THE LOAN OF NAVAL VESSELS TO ITALY
AND SPAIN

JULY 15, 1965.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. Rivers of South Carolina, from the Committee on Armed
Services, submitted the following

R E P O R T

[To accompany H.R. 7812]

The Committee on Armed Services, to whom was referred the bill
(H.R. 7812) to authorize the loan of naval vessels to friendly foreign
countries, and for other purposes, having considered the same, report
favorably thereon without amendment and recommend that the bill
do pass.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the loan of two submarines
to Italy and a helicopter carrier to Spain.

SUMMARY

The President desires authority to loan three ships as follows:

Italy-----	2 submarines.
Spain-----	1 helicopter carrier.

The submarines to be loaned are of the *Balao* class (1,500 tons).
The helicopter is of the *Cabot* class (11,000 tons).

COST

The cost of this bill will be approximately \$20.5 million. This cost
will be borne entirely by the recipient countries.

GOLD INFLOW

This bill will result in a favorable flow of gold to the United States
in the amount of \$20.5 million.

2 LOAN OF NAVAL VESSELS TO ITALY AND SPAIN
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REQUESTS BY ITALY AND SPAIN

The Italian Government has requested the loan of two submarines to be used by the Italian Navy to replace existing obsolete and shallow-diving vessels. The resultant improved submarine services will markedly improve the proficiency of the Italian ASW forces which are a significant part of the free world naval strength. If the loan of these two submarines is approved, limited activation will be accomplished prior to transfer to Italy where these submarines will receive extensive overhaul and modernization.

The Spanish Government requested the loan of a *Cabot* class helicopter carrier. If this legislation is approved, the Spanish Government will pay the cost of activation, overhaul, and modernization in the U.S. shipyards, and will buy U.S. helicopters. With this helicopter carrier the Spanish intend to build a significant ASW capability that would be helpful to the United States in combating the threat posed by Soviet bloc submarine forces.

FACTORS CONSIDERED

The following factors were considered before the new loans were proposed: First, it was determined that the transfer of ships for the specific intended uses of this legislation would not adversely affect the U.S. Navy's military capability and is in keeping with the U.S. national policy for the countries under consideration. The loans were then examined in relation to the naval tasks which the nations will be performing under their bilateral and multilateral agreements. Finally, an appraisal was made of the countries' demonstrated will to provide for their own defense and available manpower in conjunction with their capability to operate the ships, and the countries' economies. These factors have been weighed in the field by the U.S. Ambassador and the chief of the military assistance advisory group in each country, by the commander in chief, U.S. European Command, and by the Departments of Defense and State. At each of the levels it was determined that it is to our advantage to initiate the loans to these countries.

Advantages to the United States

The United States would derive significant advantages from these loans as they are the most economical and effective means by which the United States can assist these navies to meet their force improvement program.

BACKGROUND OF SHIP LOAN PROGRAM

The law

Prior to 1951, U.S. naval vessels were transferred to friendly foreign nations under the provisions of the Mutual Assistance Defense Act of 1949, as amended. In 1951, the Congress passed Public Law 82-3 (10 U.S.C. 7307). This law, as codified, is as follows:

RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Opera-

tions certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

Since that time, 17 laws relating to ship transfers have been enacted by the Congress. Eleven of these provided authority for new loans and extensions of existing loans and the other six dealt with loan extensions only.

Transfers to date

These laws have authorized the loan of 94 ships, the transfer of 9 ships, and the sale of 4 ships. Of the 94 ships authorized for loan 72 have actually been loaned; of the 4 ships authorized for sale, 1 has been sold; all of the 9 ships' transfers have been effected.

Expenditures and receipts to date

To date, ship loan laws have involved an expenditure of \$158,981,000 in the activation, rehabilitation, and outfitting of vessels.

On the other side of the ledger, the United States has received \$41,406,345 from the sale of a submarine to Venezuela and from the activation, rehabilitation, and outfitting of vessels which had been paid for by the recipient countries.

TYPICAL COSTS

The cost of activation, overhaul, and rehabilitation of a submarine is in the order of \$3.7 million, unless there is a snorkel conversion and fairwater streamlining in which event the cost is \$5 million. These costs are typical and vary somewhat from ship to ship. The submarines for Italy will, according to current planning, have only austere rehabilitation and the cost, therefore, will be considerably less than the typical cost set out above.

In the case of the helicopter carrier, the cost will be approximately \$10 million.

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LOAN OF NAVAL VESSELS TO ITALY AND SPAIN

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Ships on loan to Italy and Spain as of June 1, 1965

Country	Num- ber and type	Ship	Authority	Delivery date	Expiration date
Italy	3-SS	Barb, SS-220	Public Law 83-188, as amended by Public Law 84-948, TIAS 3124, and Public Law 86-57, TIAS 4418 extended Public Law 88-437.	Dec. 13, 1964	Dec. 13, 1969
		Dace, SS-247	do	Jan. 31, 1965	Jan. 31, 1970
Spain	1-SS	Lizard Fish, SS-373	Public Law 85-532, TIAS 4365 extended Public Law 88-437.	Jan. 9, 1960	Jan. 9, 1970
	5-DD	Kraken, SS-370	Public Law 85-532, TIAS 4262 extended Public Law 88-437.	Dec. 24, 1959	Dec. 24, 1969
		Capp, DD-550	Public Law 83-188, as abandoned by Public Law 84-948, and Public Law 87-387, TIAS 3789, 5096.	May 15, 1957	May 15, 1967
		D. W. Taylor, DD-551	do	do	Do.
		Converse, DD-500	Public Law 85-532, TIAS 4262 extended Public Law 88-437.	July 1, 1959	July 1, 1969
		Jarvis, DD-799	Public Law 85-532, TIAS 4582.	Nov. 3, 1960	Nov. 3, 1970
		McGowan, DD-678	do	Dec. 4, 1960	Dec. 4, 1970

¹ Legislation authorized 5-year extension.

Detailed costs of proposed legislation (no cost to United States)

[In millions]

Country	Num- ber	Type	Activat- ion or modifi- cation	Spares	Material total	Training	Overall total
Spain	1	LPH Cost of SH-3A helicopters	\$9.5	\$0.5	\$10		\$10
Italy	2	SS	.55		.55		.55
Total							20.55

VARIATION IN SHIP LOAN REACTIVATION COSTS

Condition of hull

The condition of the hull and machinery varies between ships due to age, time in active service, deterioration in mothballs, etc. Only after each ship selected for loan/sale has been inspected by technical personnel can accurate estimates be given for activation and overhaul costs of the hull and machinery.

Obsolete equipment replacement

The length of time since the ship was active and the type of equipment installed, such as radars, radios, fire control equipment, etc., will influence the amount of equipment that must be replaced. Certain obsolete equipment must be replaced to insure that spare parts are available and thus the ship is logically supportable after activation.

Modernization

If the recipient country desires a snorkle and fairwater streamlining for a submarine, or more powerful sonar, etc., the total cost will vary

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greatly. Additionally, recipient countries may desire various alterations to improve the effectiveness of a vessel.

Extent of overhaul

There may also be differences in the amount of overhaul work accomplished in U.S. shipyards. The capability of recipient countries to perform limited overhaul work in their own shipyards would lessen the amount done in the United States thus decreasing the estimated costs.

Spare parts

The depth and range of spare parts to support the ship in the future will also cause the costs to vary.

Consumable stores

The amount of consumable stores will also change the total cost to the recipient government.

RESERVE FLEET

Of the types of ships contemplated for loan in this bill, we now have in the reserve fleet nine submarines and three carriers of the *Cabot* class.

U.S. WORLDWIDE COMMITMENTS

The U.S. worldwide defense commitments have required large allocations of our resources of manpower, equipment, and money. It is our goal to obtain a larger and more equitable allied participation in and contribution to free world defense, with a corresponding decrease in inequitably high American costs. The proposed ship transfers support that goal.

Ships now contributing only potential readiness in our reserve fleet can be converted to actual operational naval strength in the hands of our allies. These reserve fleet ships have a U.S. mobilization role; however, from a strictly military evaluation they are a better asset when overhauled and modernized to an appropriate degree, strategically dispersed throughout the world, and operational in the hands of our allies.

Validation of need

For each proposed loan or sale, the military requirement for ships has been thoroughly validated by the country team, the unified commander, and the Joint Chiefs of Staff.

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6 LOAN OF NAVAL VESSELS TO ITALY AND SPAIN

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Ability to operate ships

It has been determined that the recipient country has both the manpower and technical ability to operate the ships efficiently and effectively. The committee is advised that a concurrent request through diplomatic channels for the loan or sale has assured that there is also political support for the proposed transfer. After approval by the country team, the unified commander has reviewed the proposed ship loan or sale to insure that it is in accordance with theater plans. Subsequently, the other military departments, the Departments of Defense and State, and the Bureau of the Budget, by their approval, have given assurance that the proposal fully supports U.S. policy and objectives.

Economical and effective

This bill, containing the proposed loan of two submarines and one helicopter carrier to Italy and Spain, at no cost to the United States, provides the most economical and effective means by which the United States can assist these navies to improve their forces.

MUTUAL ADVANTAGES

Readiness and maintenance.—Although the U.S. Navy reserve fleet is a source of potential naval strength, this potentiality would become actual naval strength if all the ships could be adequately manned, operated, and maintained in an active status. The cost of such operation by the United States is prohibitive in peacetime. Operation and maintenance of the vessels by allies can assist in keeping the equipment ready for use and in good condition.

Deployment.—Obviously, it is important to have naval forces properly positioned to counter an enemy threat. If the allies to whom the ships are to be loaned have the vessels functioning at the outbreak of any hostilities, time will be saved in the positioning of ships in the geographical areas where they are to be used.

Dispersion of our reserve fleet.—The U.S. Navy reserve fleet has been dispersed as widely as available berthing space and reasonable access to repair and overhaul facilities for periodic rehabilitation would permit. The loan of the ships that are the subject of this bill would tend to reduce undesirable concentration of reserve vessels.

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RECIPIENT NATIONS

Requests received.—Since World War II, the United States has received many requests for ships from foreign countries. These requests have been evaluated in terms of the needs of the requesting countries, mobilization requirements of the United States, worldwide demands on our resources, and the availability of mutual defense assistance funds.

Ships proposed for loan under this bill will satisfy some of the more urgent requests that have been considered. The ships that are proposed for transfer under the bill are part of our mobilization base but they will be in possession of allies and not lost to the United States.

Ability of countries to use.—The ability of the countries concerned to operate these vessels properly has been checked by the country teams composed of the U.S. Ambassador, the chief of the military assistance advisory group, and the U.S. operations mission in each country involved.

AGREEMENTS WITH FOREIGN COUNTRIES

Formal agreement

It is proposed that, upon enactment of the bill into law, a formal agreement will be concluded by the State Department with the recipient foreign government. It will be for a term of 5 years and if requested by the recipient government, the loan may be extended for an additional 5 years at the discretion of the President. The agreement will stipulate that the ships be used in accordance with the conditions of the mutual defense assistance agreement. The recipient government will have use of all equipment and spare parts on board the ships at the time of the delivery, but title remains in the United States even though the ships may be placed under the recipient government's flag. Possession of the ships will not be relinquished without consent of the United States, and no claims arising as a result of transfer and operation of the ships may be assessed against the United States.

Right to repossess

The United States may repossess those ships at any time if necessitated by its own emergency defense requirements. At the expiration of the loan, the ships will be returned in the same condition as when loaned, except for fair wear and tear, but if a ship is damaged or lost through enemy action, the recipient country is exempt from liability for such damage or loss.

FRIENDLY FOREIGN NATIONS

Ultimate responsibility for determination of a "friendly foreign nation" is vested in the President by the Foreign Assistance Act of 1961, section 503, which states inter alia:

The President is authorized to furnish military assistance on such terms and conditions as he may determine, to any friendly country or international organization, the assisting of which the President finds will strengthen the security of the United States and promote world peace and which is otherwise eligible to receive such assistance, * * *.

Similar authority is contained in section 507 regarding military sales. In this case, the "sale" is for goods and services; i.e., equipment and repairs used in activating and overhauling the ship.

The definition is detailed further within the act of 1961 in section 506 where certain conditions of eligibility are prescribed. These conditions are applied continuously to all countries eligible for both grant aid and sales by the Departments of State and Defense to insure that recipients are "friendly" and that such military assistance is in keeping with military and political objectives of the United States.

THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

MILITARY ASSISTANCE

SECTION 506. CONDITION OF ELIGIBILITY.—(a) In addition to such other provisions as the President may require, no defense articles shall be furnished to any country on a grant basis unless it shall have agreed that—

(1) it will not, without the consent of the President—

(A) permit any use of such articles by anyone not an officer, employee, or agent of that country,

(B) transfer, or permit any officer, employee, or agent of that country to transfer such articles by gift, sale, or otherwise, or

(C) use or permit the use of such articles for purposes other than those for which furnished;

(2) it will maintain the security of such articles, and will provide substantially the same degree of security protection afforded to such articles by the United States Government;

(3) it will, as the President may require, permit continuous observation and review by, and furnish necessary information to, representatives of the United States Government with regard to the use of such articles; and

(4) unless the President consents to other disposition, it will return to the United States Government for such use or disposition as the President considers in the best interests of the United States, such articles which are no longer needed for the purposes for which furnished.

* * * * *

FISCAL DATA

This bill will not involve the expenditure of any Federal funds for the activation, overhaul and modification of these ships.

It is estimated that the cost of activation and mobilization of the vessels which are covered by the draft bill will total approximately \$20.5 million. These costs will be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

DEPARTMENTAL DATA

The bill is a part of the Department of Defense legislative program for the 89th Congress. The Bureau of the Budget has no objection to this legislation. Below is set out a letter dated April 27, 1965, from Secretary of the Navy Paul H. Nitze which is made a part of this report.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., April 27, 1965.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

MY DEAR MR. SPEAKER: There is forwarded herewith a draft of proposed legislation to authorize the loan of naval vessels to friendly foreign countries, and for other purposes.

This proposal is a part of the Department of Defense legislative program for the 89th Congress and it is related to the mutual defense and development program. The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the presentation of this proposal for the consideration of

the Congress. The Department of the Navy has been designated as the representative of the Department of Defense for this legislation. It is recommended that this proposal be enacted by the Congress.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the loan of two submarines to Italy and a helicopter carrier to Spain.

The Italian Government has requested the loan of two submarines to be used by the Italian Navy to replace existing obsolete and shallow-diving vessels. The resultant improved submarine services will markedly improve the proficiency of the Italian ASW forces which are a significant part of the free world naval strength. If the loan of these two submarines is approved, limited activation will be accomplished prior to transfer to Italy where these submarines will receive extensive overhaul and modernization.

The Spanish Government requested the loan of a *Cabot* class helicopter carrier. If the loan of this carrier is approved by Congress, the Spanish Government will pay the cost of activation, overhaul, and modernization in the U.S. shipyards, and will buy U.S. helicopters. With this helicopter carrier the Spanish intend to build a significant ASW capability that would be helpful to the United States in combating the threat posed by Soviet bloc submarine forces.

The following factors were considered before the new loans were proposed: First, it was determined that the transfer of ships for the specific intended uses of this legislation would not adversely affect the U.S. Navy's military capability and is in keeping with the U.S. national policy for the countries under consideration. The loans were then examined in relation to the naval tasks which the nations will be performing under their bilateral and multilateral agreements. Finally, an appraisal was made of the countries' demonstrated will to provide for their own defense and available manpower in conjunction with their capability to operate the ships, and the countries' economies. These factors have been weighed in the field by the U.S. Ambassador and the chief of the military assistance advisory group in each country, by the commander in chief, U.S. European Command, and by the Departments of Defense and State. At each of the levels it was determined that it is to our advantage to initiate the loans to these countries.

The United States would derive significant advantages from these loans as they are the most economical and effective means by which the United States can assist these navies to meet their force improvement program.

In view of the advantages, the political desirability of these loans, and the military requirement for these forces, it is considered that the legislation proposed herein should be enacted.

COST AND BUDGET DATA

It is estimated that the cost of activation and mobilization of the vessels which are covered by the draft bill will total approximately \$20.5 million. These costs will be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

Sincerely yours,

PAUL H. NITZE,
Secretary of the Navy.

A BILL To authorize the loan of naval vessels to friendly foreign countries, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) Italy, two submarines, and (2) Spain, one helicopter carrier.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 3. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all loans made under authority of this Act.

SEC. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 6. The authority of the President to lend naval vessels under this Act terminates on December 31, 1967.

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CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill as reported:

EXISTING LAW

(10 U.S.C. ch. 633, Naval Vessels)

* * * * *

SEC. 7307. RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

* * * * *

THE BILL AS REPORTED

H.R. 7812

That, notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) Italy, two submarines, and (2) Spain, one helicopter carrier.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

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SEC. 3. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 4. No loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all loans made under authority of this Act.

SEC. 5. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 6. The authority of the President to lend naval vessels under this Act terminates on December 31, 1967.

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89TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
1st Session } No. 622

AUTHORIZING THE SALE OR LOAN OF NAVAL VESSELS
TO FRIENDLY LATIN AMERICAN COUNTRIES

JULY 15, 1965.—Committed to the Committee of the Whole House on the State
of the Union and ordered to be printed

Mr. RIVERS of South Carolina, from the Committee on Armed
Services, submitted the following

R E P O R T

[To accompany H.R. 7811]

The Committee on Armed Services, to whom was referred the bill
(H.R. 7811) to authorize the sale or loan of naval vessels to friendly
Latin American countries, and for other purposes, having considered
the same, report favorably thereon without amendment and recommend
that the bill do pass.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the sale or loan of 12
vessels of the destroyer and submarine categories of the reserve
fleet to certain friendly Latin American countries. This authority
is requested to enable the Latin American navies to continue replace-
ment of obsolete ships and standardization on general purpose units
suitable and effective for peacetime surveillance of coastal waters,
support of counterinsurgency operations in coastal areas, and wartime
patrol of convoy routes along their coasts.

TRAINING EXERCISE

The annual United States-South American ASW training exercises
(UNITAS VI is scheduled for fall 1965) have demonstrated the value
of standardizing equipment and training to improve the collective
strength of United States-South American naval forces.

SUMMARY

The President desires authority to loan or sell 12 ships to the following South American countries:

Argentina-----	3 destroyers.
Brazil-----	4 destroyers.
Chile-----	2 destroyers.
Peru-----	2 destroyers.
Venezuela-----	1 submarine.

The destroyers to be loaned or sold are of the *Fletcher* class (2,100 tons). The submarine is of the *Balao* class (1,500 tons).

COST

The cost of this bill will be between \$38 and \$80 million depending upon the extent of overhaul and modification performed, and whether title to the ships is purchased by the recipient countries. This cost will be borne entirely by the recipient countries.

GOLD INFLOW

This bill will result in a minimum of \$38 million or maximum of \$80 million favorable flow of gold depending upon the considerations set out immediately above.

BACKGROUND OF SHIP LOAN PROGRAM

The law

Prior to 1951, U.S. naval vessels were transferred to friendly foreign nations under the provisions of the Mutual Assistance Defense Act of 1949, as amended. In 1951, the Congress passed Public Law 82-3 (10 U.S.C. 7307). This law, as codified, is as follows:

RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

Since that time, 17 laws relating to ship transfers have been enacted by the Congress. Eleven of these provided authority for new loans and extensions of existing loans and the other six dealt with loan extensions only.

Transfers to date

These laws have authorized the loan of 94 ships, the transfer of 9 ships, and the sale of 4 ships. Of the 94 ships authorized for loan 72 have actually been loaned; of the 4 ships authorized for sale, 1 has been sold; all of the 9 ships' transfers have been effected.

NAVAL VESSELS TO FRIENDLY LATIN AMERICAN COUNTRIES 3

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Expenditures and receipts to date

To date, ship loan laws have involved an expenditure of \$158,981,000 in the activation, rehabilitation, and outfitting of vessels.

On the other side of the ledger, the United States has received \$41,406,345 from the sale of a submarine to Venezuela and from the activation, rehabilitation, and outfitting of vessels which have been paid for by the recipient countries.

TYPICAL COSTS

The cost of activation, overhaul, and rehabilitation of a destroyer varies between \$3.3 and \$5.7 million. The higher figure would be applicable to a ship which was also modernized.

Similar costs for a submarine are \$3.7 million unless there is a snorkel conversion and fairwater streamlining in which event the cost is \$5 million. These costs are typical and vary somewhat from ship to ship. Some of the ships in this bill, however, may have only austere rehabilitation and in these cases, the cost per ship will be much less.

Ships on loan to foreign countries contained in this bill as of June 1, 1965

Country	Number and type	Ship	Authority	Delivery date	Expiration date
Argentina.....	2-SS	Lamprey, SS-372.....	Public Law 85-532, TIAS 4465 extended Public Law 88-437.	July 21, 1960	July 21, 1970
	3-DD	Macabi, SS-375.....	do	Aug. 11, 1960	Aug. 11, 1970
		Heermann, DD-532.....	Public Law 85-532, TIAS 4653.	Aug. 7, 1961	Aug. 7, 1966
		Dortch, DD-670.....	do	Aug. 14, 1961	Aug. 14, 1966
		Stembel, DD-644.....	do	do	Do.
		Muskallunge, SS-262.....	Public Law 84-484, TIAS 3731, 5116.	Jan. 18, 1957	Jan. 18, 1967
		Paddle, SS-263.....	do	do	Do.
		Sand lance, SS-381.....	Public Law 85-532, TIAS 4662.	Sept. 7, 1963	Sept. 7, 1968
		Plaice, SS-380.....	do	do	Do.
Brazil.....	4-SS	Guest, DD-472.....	Public Law 85-532, TIAS 4437 extended Public Law 88-437.	June 5, 1959	June 5, 1969
		Bennett, DD-473.....	do	Dec. 15, 1959	Dec. 15, 1969
		Cushing, DD-797.....	Public Law 85-532, TIAS 4602	July 20, 1961	July 20, 1966
		Halley, DD-588.....	do	do	Do.
		Springer, SS-414.....	Public Law 85-532, TIAS 4589.	Jan. 23, 1961	Jan. 23, 1966
		Spot, SS-413.....	Public Law 85-532, TIAS 4638.	Jan. 12, 1962	Jan. 12, 1967
		Wadleigh, DD-689.....	do	July 26, 1962	July 26, 1967
		Rooks, DD-804.....	do	do	Do.
		Bonham, DD-706.....	Public Law 85-532, TIAS 4602 extended Public Law 88-437.	Dec. 16, 1960	Dec. 15, 1970
Peru.....	2-DD	Ishorwood, DD-520.....	Public Law 85-532, TIAS 4724.	Oct. 8, 1961	Oct. 8, 1966
Venezuela ²					

¹ Legislation authorized 5-year extension.² No U.S. ships on loan.

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Detailed costs of proposed legislation (no cost to United States)

[In millions]

Country	Number	Type	Activation or modification	Spares	Material total	Training	Overall total
Argentina.....	3	DD	\$15.90	\$1.08	\$17.07	\$0.21	\$17.28
Brazil.....	4	DD	21.32	1.44	22.76	.28	23.04
Chile.....	2	DD	10.66	.72	11.38	.14	11.52
Peru.....	2	DD	10.66	.72	11.38	.14	11.52
Venezuela.....	1	SS	5.00	.25	5.25	.07	5.32
Total.....							68.68

VARIATION IN SHIP LOAN REACTIVATION COSTS

The reactivation/overhaul/modernization costs for the ships proposed for loan to Latin American countries in H.R. 7811 is estimated to vary from a minimum of \$38 million to a maximum of \$80 million. The reasons for the variance in cost estimates are many; the most pertinent being:

Purchase of title

The option to purchase title is given to the Latin American government in the proposed legislation with the prices fixed at not less than \$1 million per ship. The total cost estimates, therefore, could vary as much as \$12 million for H.R. 7811.

Condition of hull

The condition of the hull and machinery varies between ships due to age, time in active service, deterioration in mothballs, etc. Only after each ship selected for loan/sale has been inspected by technical personnel can accurate estimates be given for activation and overhaul costs of the hull and machinery.

Obsolete equipment replacement

The length of time since the ship was active and the type of equipment installed, such as radars, radios, fire control equipment, etc., will influence the amount of equipment that must be replaced. Certain obsolete equipment must be replaced to insure that spare parts are available and thus the ship is logically supportable after activation.

Modernization

If the recipient country desires more modern antiaircraft guns such as 3-inch 50's, or a snorkle and fairwater streamlining for a submarine, or more powerful sonar, etc., the total cost will vary greatly. Additionally, recipient countries may desire various alterations to improve the effectiveness of a vessel.

Extent of overhaul

There may also be differences in the amount of overhaul work accomplished in U.S. shipyards. The capability of recipient countries to perform limited overhaul work in their own shipyards would lessen the amount done in the United States thus decreasing the estimated costs.

Spare parts

The depth and range of spare parts purchased to support the ship

Consumable stores

The amount of consumable stores purchased will also change the total cost to the recipient governments.

To avoid later embarrassment incident to increases in estimated costs, the figure of \$68.68 million was chosen, which is an educated guess based on the maximum cost estimates for activation/overhaul/modernization of the ships involved. The total of \$68.68 million was derived as follows:

[In millions]		
11 destroyers:		
Activation/overhaul/modernization with 3-inch 50 guns, \$5.33 each	\$53.63	
Concurrent spare parts, \$0.36 each	.96	
Training of ship crews, \$0.07 each	.77	
Destroyers total	63.36	
1 submarine:		
Activation/overhaul/modernization with snorkle and fairwater streamlining	5.0	
Concurrent spare parts	.25	
Training of ships crew	.07	
Submarine total	5.32	
H. R. 7811, grand total	68.68	

NOTE.—These figures do not include the cost of \$1,000,000 per ship if title is purchased.

RESERVE FLEET

Of the types of ships contemplated for loan or sale in this bill, we now have in the reserve fleet 134 destroyers and 9 submarines.

U.S. WORLDWIDE COMMITMENTS

The U.S. worldwide defense commitments have required large allocations of our resources of manpower, equipment, and money. It is our goal to obtain a larger and more equitable allied participation in and contribution to free-world defense, with a corresponding decrease in inequitably high American costs. The proposed ship transfers support that goal.

Ships now contributing only potential readiness in our reserve fleet can be converted to actual operational naval strength in the hands of our allies. These reserve fleet ships have a U.S. mobilization role; however, from a strictly military evaluation they are a better asset when overhauled and modernized to an appropriate degree, strategically dispersed throughout the world, and operational in the hands of our allies.

Validation of need

For each proposed loan or sale, the military requirement for ships has been thoroughly validated by the country team, the unified commander, and the Joint Chiefs of Staff.

Ability to operate ships

It has been determined that the recipient country has both the manpower and technical ability to operate the ships efficiently and effectively. The committee is advised that a concurrent request through diplomatic channels for the loan or sale has assured that there is also additional support for the proposed transfer for approval by

the country team, the unified commander has reviewed the proposed ship loan or sale to insure that it is in accordance with theater plans. Subsequently, the other military departments, the Departments of Defense and State, and the Bureau of the Budget, by their approval, have given assurance that the proposal fully supports U.S. policy and objectives.

Economical and effective

This bill, containing the proposed loan or sale of 11 destroyers and 1 submarine to South American countries, at no cost to the United States, provides the most economical and effective means by which the United States can assist these navies to improve their forces.

Replacement of obsolete ships

The vessels authorized by this bill would enable Latin American navies to continue replacement of obsolete ships and standardize on general purpose units suitable and effective for peacetime surveillance of coastal waters, support of counterinsurgency operations in coastal areas, and wartime patrol of convoy routes along their coasts. Since U.S. naval forces are insufficient to allow the U.S. Navy to assume the ASW role in these areas, the vessels provided under this bill will allow the Latin American navies to fill this important role. The annual United States-South American ASW training exercises (UNITAS series) have demonstrated the value of standardizing equipment and training to improve the collective strength of United States-South American naval forces.

Law of 1958

Concomitant with the ship loans under the 1958 law (Public Law 85-532), South American countries scrapped, laid up, or inactivated tonnage far beyond that received in loan. Testimony received by the committee from the Secretary of the Navy indicates that additional obsolete ships would be scrapped should the Congress approve this bill. The loan or sale of these ships would thus result in a quantitative reduction in their navies while greatly increasing their efficiency. The alternative appears to be a growing obsolescence of their ships, a degrading of the Latin American naval role, and perhaps their turning to other countries for support.

Option to purchase

In this bill, the South American countries would have the option to purchase the ships. Under that option, the ships involved would be stricken from the Navy list, and sold for not less than \$1 million each over and above the costs of activation, overhaul, or modification. Upon full payment by the recipient, such sales would be final and no recall of the ships would apply.

MUTUAL ADVANTAGES

Internal and external security.—The committee was informed that the ships proposed for loan under this bill will be used by the recipient countries to discharge naval responsibilities assumed by them in their areas. These ships will assist the recipient countries in maintaining their own internal security, in protecting their coasts and coastal lines of communication, and in protecting sea lines of communication.

Antisubmarine capability.—The Department of Defense regards as important the achievement of a strong antisubmarine capability in the areas where these ships would be loaned. Any contribution by the recipient countries to offsetting a prospective submarine threat would enhance the total defense capability of the free world. To the extent that recipient countries develop an antisubmarine capability, U.S. naval forces will be freed from certain antisubmarine tasks.

Readiness and maintenance.—Although the U.S. Navy Reserve fleet is a source of potential naval strength, this potentiality would become actual naval strength if all the ships could be adequately manned, operated, and maintained in an active status. The cost of such operation by the United States is prohibitive in peacetime. Operation and maintenance of the vessels by allies can assist in keeping the equipment ready for use and in good condition.

Deployment.—Obviously, it is important to have naval forces properly positioned to counter an enemy threat. If the allies to whom the ships are to be loaned have the vessels functioning at the outbreak of any hostilities, time will be saved in the positioning of ships in the geographical areas where they are to be used.

Dispersion of our reserve fleet.—The U.S. Navy reserve fleet has been dispersed as widely as available berthing space and reasonable access to repair and overhaul facilities for periodic rehabilitation would permit. The loan of the ships that are the subject of this bill would tend to reduce undesirable concentration of reserve vessels.

Extension of U.S. influence.—The recipients of other loans of U.S. ships have adopted U.S. Navy doctrines and standards of operation and maintenance. This result has come about under the personnel training program carried out before and after transfer of the ships. During such training, naval personnel of foreign nations have the opportunity to observe U.S. Navy organizations in action and to observe America and Americans during their periods of leave and liberty. The officers and men who receive this training will provide the leadership for their navies in the years to come.

RECIPIENT NATIONS

Requests received.—Since World War II, the United States has received many requests for ships from foreign countries. These requests have been evaluated in terms of the needs of the requesting countries, mobilization requirements of the United States, worldwide demands on our resources, and the availability of mutual defense assistance funds.

Ships proposed for loan under this bill will satisfy some of the more urgent requests that have been considered. The ships that are proposed for transfer under the bill are part of our mobilization base but they will be in possession of allies and not lost to the United States.

Ability of countries to use.—The ability of the countries concerned to operate these vessels properly has been checked by the country teams composed of the U.S. ambassador, the chief of the military assistance advisory group, and the U.S. operations mission in each country involved. They have demonstrated their ability in operating with U.S. naval forces in UNITAS training exercises over the last 5 years.

AGREEMENTS WITH FOREIGN COUNTRIES

Formal agreement

It is proposed that, upon enactment of the bill into law, a formal agreement will be concluded by the State Department with the recipient foreign government. It will be for a term of 5 years and if requested by the recipient government, the loan may be extended for an additional 5 years at the discretion of the President. The agreement will stipulate that the ships be used in accordance with the conditions of the mutual defense assistance agreement. The recipient government will have use of all equipment and spare parts on board the ships at the time of the delivery, but title remains in the United States even though the ships may be placed under the recipient government's flag. Possession of the ships will not be relinquished without consent of the United States, and no claims arising as a result of transfer and operation of the ships may be assessed against the United States.

Right to repossess

The United States may repossess those ships at any time if necessitated by its own emergency defense requirements. At the expiration of the loan, the ships will be returned in the same condition as when loaned, except for fair wear and tear, but if a ship is damaged or lost through enemy action, the recipient country is exempt from liability for such damage or loss.

FRIENDLY FOREIGN NATIONS

Ultimate responsibility for determination of a "friendly foreign nation" is vested in the President by the Foreign Assistance Act of 1961, section 503, which states inter alia:

The President is authorized to furnish military assistance on such terms and conditions as he may determine, to any friendly country or international organization, the assisting of which the President finds will strengthen the security of the United States and promote world peace and which is otherwise eligible to receive such assistance, * * *.

Similar authority is contained in section 507 regarding military sales. In this case, the "sale" is for goods and services; i.e., equipment and repairs used in activating and overhauling the ship.

The definition is detailed further within the act of 1961 in section 506 where certain conditions of eligibility are prescribed. These conditions are applied continuously to all countries eligible for both grant aid and sales by the Departments of State and Defense to insure that recipients are "friendly" and that such military assistance is in keeping with military and political objectives of the United States.

THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED,
PART II, CHAPTER 2

MILITARY ASSISTANCE

SECTION 506. CONDITION OF ELIGIBILITY.—(a) In addition to such other provisions as the President may require, no defense articles shall be furnished to any country on a grant basis unless it shall have agreed that—

(1) it will not, without the consent of the President—

(A) permit any use of such articles by anyone not an officer, employee, or agent of that country,

(B) transfer, or permit any officer, employee, or agent of that country to transfer such articles by gift, sale, or otherwise, or

(C) use or permit the use of such articles for purposes other than those for which furnished:

(2) it will maintain the security of such articles, and will provide substantially the same degree of security protection afforded to such articles by the United States Government;

(3) it will, as the President may require, permit continuous observation and review by, and furnish necessary information to, representatives of the United States Government with regard to the use of such articles; and

(4) unless the President consents to other disposition, it will return to the United States Government for such use or disposition as the President considers in the best interests of the United States, such articles which are no longer needed for the purposes for which furnished.

* * * * *

SECTION 507. SALES.—(a) The President may furnish defense articles from the stocks of the Department of Defense and defense services to any friendly country or international organization, without reimbursement from funds made available for use under this part, if such country or international organization agrees to pay not less than the value thereof in United States dollars. Payment shall be made in advance or, as determined by the President to be in the best interests of the United States, within a reasonable period not to exceed three years after the delivery of the defense articles, or the provision of the defense services. For the purposes of this subsection, the value of excess defense articles shall be not less than (1) the value specified in section 644(m)(1) plus the scrap value, or (2) the market value, if ascertainable, whichever is the greater.

(b) The President may, without requirement for charge to any appropriation or contract authorization otherwise provided, enter into contracts for the procurement of defense articles or defense services for sale to any friendly country or international organization if such country or international organization provides the United States Government with a dependable undertaking (1) to pay the full amount of such

contract which will assure the United States Government against any loss on the contract, and (2) to make funds available in such amounts and at such times as may be required to meet the payments required by the contract, and any damages and costs that may accrue from the cancellation of such contract, in advance of the time such payments, damages, or costs are due. No sales of unclassified defense articles shall be made to the government of any economically developed nation under the provisions of this subsection unless such articles are not generally available for purchase by such nations from commercial sources in the United States: *Provided, however,* That the Secretary of Defense may waive the provisions of this sentence when he determines that the waiver of such provisions is in the national interest.

FISCAL DATA

This bill will not involve the expenditure of any Federal funds for the activation, overhaul, and modification of these ships.

It is estimated that costs of the proposed sales or loans covered in the draft bill will vary from a minimum of \$38 million to a maximum of \$80 million, dependent upon the extent of overhaul and modification desired, and whether title to the ships is purchased by the recipient countries. The costs for activation and rehabilitation of the vessels will be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation. All future costs of maintenance and overhaul will be paid by the recipient government.

DEPARTMENTAL DATA

This bill is a part of the Department of Defense legislative program for the 89th Congress. The Bureau of the Budget has no objection to this legislation. Below is set out a letter dated April 27, 1965, from Secretary of the Navy Paul H. Nitze which is made a part of this report.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., April 27, 1965.

Hon. JOHN W. McCORMACK,
Speaker of the House of Representatives, Washington, D.C.

My DEAR MR. SPEAKER: There is forwarded herewith a draft of proposed legislation to authorize the sale or loan of naval vessels to friendly Latin American countries, and for other purposes.

This proposal is a part of the Department of Defense legislative program for the 89th Congress, and it is related to the mutual defense and development program. The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress. The Department of the Navy has been designated as the representative of the Department of Defense for this legislation. It is recommended that this proposal be enacted by the Congress.

PURPOSE OF THE LEGISLATION

The proposed legislation would authorize the sale or loan of 12 vessels of the destroyer and submarine categories of the reserve fleet to certain friendly Latin American countries. This authority is requested to enable the Latin American navies to continue replacement of obsolete ships and standardization on general-purpose units suitable and effective for peacetime surveillance of coastal waters, support of counterinsurgency operations in coastal areas, and wartime patrol of convoy routes along their coasts. The annual U.S.-South American ASW training exercises (UNITAS VI is scheduled for fall 1965) have demonstrated the value of standardizing equipment and training to improve the collective strength of U.S.-South American naval forces.

The following factors were considered before the sales or loans were proposed. First, it was determined that the transfer of ships for the specific intended uses of this legislation would not adversely affect the U.S. Navy's military capability and is in keeping with U.S. national policy. The proposals were then examined in relation to the naval tasks which the nations will be performing under their bilateral and multilateral agreements. Finally, an appraisal was made of the countries' demonstrated will to provide for their own defense and available manpower in conjunction with their capability to operate the ships, and the countries' economies. These factors have been weighed in the field by the U.S. Ambassador and the chief of the military assistance advisory group in each country, by the Commander in Chief, Southern Command, and by the Departments of Defense and State. At each of the levels it was determined that it is to our advantage to initiate the sales or loans as they are the most economical and effective means by which the United States can assist these navies to meet their force improvement program.

COST AND BUDGET DATA

It is estimated that costs of the proposed sales or loans covered in the draft bill will vary from a minimum of \$38 million to a maximum of \$80 million, dependent upon the extent of overhaul and modification desired, and whether title to the ships is purchased by the recipient countries. The costs for activation and rehabilitation of the vessels will be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation. All future costs of maintenance and overhaul will be paid by the recipient government.

Sincerely yours,

PAUL H. NITZE,
Secretary of the Navy.

Approved For Release 2003/10/15 : CIA-RDP67B00446R000500260001-8

A BILL To authorize the sale or loan of naval vessels to friendly Latin American countries, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may sell or lend, at his discretion, to friendly foreign nations of Latin America from the Reserve Fleet, on such terms and conditions as he deems appropriate, destroyers and submarines as follows:

(1) Argentina, three destroyers, (2) Brazil, four destroyers, (3) Chile, two destroyers, (4) Peru, two destroyers, (5) Venezuela, one submarine.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 3. Notwithstanding sections 7304 and 7305 of title 10, United States Code, should the President determine that the vessel or vessels shall be sold to the recipient government, said vessel or vessels shall be stricken from the Naval Vessel Register. The vessel or vessels shall be sold at not less than one million dollars each over and above any cost of activation, overhaul, or modification. All sales will be made pursuant to the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 4. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 5. No sale or loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such sale or loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all sales or loans made under authority of this Act.

SEC. 6. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 7. The authority of the President to sell or lend naval vessels under this Act terminates on December 31, 1967.

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CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, there is herewith printed in parallel columns the text of provisions of existing law which would be repealed or amended by the various provisions of the bill as reported:

EXISTING LAW

(10 U.S.C. ch. 633, Naval Vessels)

* * * * *

SEC. 7307. RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

* * * * *

THE BILL AS REPORTED

That notwithstanding section 7307 of title 10, United States Code, or any other law, the President may sell or lend, at his discretion, to friendly foreign nations of Latin America from the reserve fleet, on such terms and conditions as he deems appropriate, destroyers and submarines as follows:

(1) Argentina, three destroyers, (2) Brazil, four destroyers, (3) Chile, two destroyers, (4) Peru, two destroyers, (5) Venezuela, one submarine.

SEC. 2. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this Act shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

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EXISTING LAW

THE BILL AS REPORTED

SEC. 3. Notwithstanding sections 7304 and 7305 of title 10, United States Code, should the President determine that the vessel or vessels shall be sold to the recipient government, said vessel or vessels shall be stricken from the Naval Vessel Register. The vessel or vessels shall be sold at not less than \$1,000,000 each over and above any cost of activation, overhaul, or modification. All sales will be made pursuant to the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 4. All loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 5. No sale or loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such sale or loan is in the best interests of the United States. The Secretary of Defense shall keep the Congress currently advised of all sales or loans made under authority of this Act.

SEC. 6. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 7. The authority of the President to sell or lend naval vessels under this Act terminates on December 31, 1967.

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Calendar No. 767

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89TH CONGRESS } SENATE } REPORT
1st Session } No. 781

LOAN OF NAVAL VESSELS TO FRIENDLY FOREIGN COUNTRIES

SEPTEMBER 23 (legislative day, SEPTEMBER 20), 1965.—Ordered to be printed

Mr. RUSSELL, from the Committee on Armed Services, submitted the following

R E P O R T

[To accompany H.R. 7812]

The Committee on Armed Services, to which was referred the bill (H.R. 7812) to authorize the loan of naval vessels to friendly foreign countries, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

AMENDMENT

The bill is amended by striking all after the enacting clause and inserting new language in the nature of a substitute.

EXPLANATION OF THE AMENDMENT

The committee recommendations include a part of three different bills that would have authorized the loan of 21 ships. The loans approved by the committee, totaling 11 ships, have been consolidated and included as an amendment to H.R. 7812.

PURPOSE

The bill as amended would authorize the loan of 11 ships to the following countries:

Argentina-----	2 destroyers.
Brazil-----	3 destroyers.
Italy-----	2 submarines.
Spain-----	1 helicopter carrier.
Philippines-----	1 destroyer escort.
Turkey-----	2 destroyers.

The destroyers to be loaned or sold are of the *Fletcher* class (2,100 tons), and the submarine is of the *Balao* class (1,500 tons).

BACKGROUND

The law

Before 1951 U.S. Naval vessels could be transferred to friendly foreign nations under the provisions of the Mutual Assistance Defense Act of 1949, as amended. Public Law 82-3, which was approved in 1951, the text of which appears in section 7307 of title 10, United States Code, requires that a battleship, carrier, cruiser, destroyer, or submarine that has not been struck from the Naval Register may not be sold, transferred, or otherwise disposed of without express congressional approval.

Since 1951 Congress has enacted 17 laws relating to ship transfers. Eleven of these laws provided authority for new loans and extensions of existing loans and the other six dealt with loan extensions only.

Summary of transfers

The 17 laws relating to ship transfers enacted since 1951 have authorized the loan of 94 ships, the transfer of 9 ships, and the sale of 4 ships. Of the 94 ships authorized for loan, 72 have actually been loaned. Of the four ships authorized for sale, one has been sold. All of the nine ships authorized for transfer have been transferred.

Requests received

Since World War II the United States has received many requests for ships from foreign countries. These requests have been evaluated in terms of the needs of the requesting countries, mobilization requirements of the United States, worldwide demands on our resources, and the availability of mutual defense assistance funds.

Ships proposed for loan under this bill will satisfy some of the more urgent requests that have been considered. The ships that are proposed for loan under the bill are part of our mobilization base, but they will be in the possession of allies and not lost by the United States.

Definition of a "friendly foreign nation"

Responsibility for determination of a "friendly foreign nation" is vested in the President by sections 503, 506, and 507 of the Foreign Assistance Act of 1961.

TITLE I

This title authorizes the loan of two submarines to Italy and a helicopter carrier to Spain.

The submarines will be used by Italy to replace obsolete submarines now in its navy. The vessels to be loaned would improve the proficiency of the Italian antisubmarine warfare forces. Limited activation of the submarines will be accomplished in the United States before transfer to Italy where they will receive extensive overhaul and modernization.

The helicopter carrier will be used by Spain to build an antisubmarine warfare capability that would be helpful to the United States in combating the threat posed by the submarine forces of potentially hostile nations. The Spanish Government will pay the cost of activation, overhaul, and modernization in U.S. shipyards and will buy helicopters for the carrier from the United States.

TITLE II

This title authorizes the loan of two destroyers to Argentina and three destroyers to Brazil.

These ships will be used by the recipient countries to replace obsolete ships and to standardize on general purpose vessels that are suitable and effective for peacetime surveillance of coastal waters, support of counterinsurgency operations in coastal areas, and wartime patrol of convoy routes along the coasts.

The bill gives Argentina and Brazil the option to purchase the ships at a price of not less than \$1 million per ship.

TITLE III

This title would authorize the loan of one destroyer escort to the Philippines and two destroyers to Turkey.

The destroyers will be used by Turkey to meet responsibilities assigned to it by the North Atlantic Treaty Organization.

The destroyer escort for the Philippines is intended as a replacement for the Philippine Navy flagship that was sunk during a typhoon in the summer of 1964. This vessel will also provide a quicker response and a greater force than can now be provided by Philippine patrol ships.

GENERAL PROVISIONS

The loan of the ships under authority of this bill may be for periods not exceeding 5 years and the President may extend the period of the loans for an additional period of not more than 5 years. All loan agreements must contain a provision that the loan can be terminated if necessitated by defense requirements of the United States.

The loan or sale of the vessels must be preceded by a determination by the Secretary of Defense, after consultation with the Joint Chiefs of Staff, that the loan or sale is in the best interest of the United States. The Secretary of Defense is required to keep the Congress currently informed of transfers made under authority of the bill.

The authority to sell or lend vessels would terminate on December 31, 1967. This period of time is needed to provide for negotiation and the orderly planning of activations and overhauls.

FINANCIAL INFORMATION

The cost of the limited activation of the two submarines to be loaned to Italy will be borne by the Italian Government. The Spanish Government will pay the cost of activating the carrier—approximately \$10 million—and in addition, will buy helicopters costing \$10 million from the United States. Hence there will be an inflow of gold of more than \$20 million.

The ships for Argentina and Brazil would result in a minimum of \$14.5 million or a maximum of \$28.5 million favorable flow of gold, depending on the extent of overhaul and modification and whether the recipient countries desire to purchase the ships.

Even the expense associated with ship loans that is grant aid would be paid by the United States for work done in our own shipyards. Consequently, there is no gold outflow.

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The cost of activating, overhauling, and rehabilitating a destroyer varies between \$3.3 and \$5.7 million and similar costs for a destroyer escort are between \$2 and \$2.7 million. These costs are typical and vary somewhat from ship to ship.

VIEW OF EXECUTIVE BRANCH

The executive branch originally recommended ship loan legislation in three separate bills. This bill, as amended, does not contain all the loans recommended but the committee was informed that the executive branch supports authority for all the loans contained in the bill.

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CHANGES IN EXISTING LAW

In compliance with subsection 4 of rule XXIX of the Standing Rules of the Senate, there are printed below in parallel columns the bill and existing law requiring congressional approval for the subject of this bill.

EXISTING LAW

(10 U.S.C. ch. 633, Naval Vessels)

* * * * *

SEC. 7307. RESTRICTION ON DISPOSAL. (a) Notwithstanding any other provision of law, no battleship, aircraft carrier, cruiser, destroyer, or submarine of the Navy may be sold, transferred, or otherwise disposed of, unless the Chief of Naval Operations certifies that it is not essential to the defense of the United States.

(b) Without authority from Congress granted after March 10, 1951, no battleship, aircraft carrier, cruiser, destroyer, or submarine that has not been stricken from the Naval Vessel Register under section 7304 of this title, nor any interest of the United States in such a vessel, may be sold, transferred, or otherwise disposed of under any law.

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THE BILL

TITLE I

SEC. 101. Notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) Italy, two submarines, and (2) Spain, one helicopter carrier.

SEC. 102. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this title shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

TITLE II

SEC. 201. Notwithstanding section 7307 of title 10, United States Code, or any other law, the President may sell or lend, at his discretion, to friendly foreign nations of Latin America from the reserve fleet, on such terms and conditions as he deems appropriate, destroyers as follows:

(1) Argentina, two destroyers, Brazil, three destroyers.

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EXISTING LAW

THE BILL

SEC. 202. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this title shall be charged to funds provided by the recipient government under the reimbursable provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

SEC. 203. Notwithstanding sections 7304 and 7305 of title 10, United States Code, should the President determine that the vessel or vessels shall be sold to the recipient government, said vessel or vessels shall be stricken from the Naval Vessel Register. The vessel or vessels shall be sold at not less than \$1,000,000 each over and above any cost of activation, overhaul, or modification. All sales will be made pursuant to the Foreign Assistance Act of 1961, as amended, or successor legislation.

TITLE III

SEC. 301. Notwithstanding section 7307 of title 10, United States Code, or any other law, the President may lend to friendly foreign nations, on such terms and conditions as he deems appropriate, ships from the reserve fleet as follows:

(1) Turkey, two destroyers, and (2) the Philippines, one destroyer escort.

SEC. 302. All expenses involved in the activation, rehabilitation, and outfitting (including repairs, alterations, and logistic support) of vessels transferred under this title shall be charged to funds programmed for the recipient

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government as grant military assistance, or as reimbursable, under the provisions of the Foreign Assistance Act of 1961, as amended, or successor legislation.

TITLE IV

SEC. 401. Loans executed under this Act shall be for periods not exceeding five years, but the President may in his discretion extend such loans for an additional period of not more than five years. They shall be made on the condition that they may be terminated at an earlier date if necessitated by the defense requirements of the United States.

SEC. 402. No sale or loan may be made under this Act unless the Secretary of Defense, after consultation with the Joint Chiefs of Staff, determines that such sale or loan is in the best interest of the United States. The Secretary of Defense shall keep the Congress currently advised of all sales or loans made under authority of this Act.

SEC. 403. The President may promulgate such rules and regulations as he deems necessary to carry out the provisions of this Act.

SEC. 404. The authority of the President to sell or lend naval vessels under this Act terminates on December 31, 1967.

